

EXHIBIT 2



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HEADLINE: Firms in Talks on Overbilling For Medicare, Medicaid Drugs

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BODY:

Federal and state agencies are in discussions with major pharmaceutical companies over allegations that they misrepresented the prices of drugs they sold within the multibillion-dollar Medicaid and Medicare insurance programs.

Federal audits in recent years have found that taxpayers paid billions of dollars extra for drugs because manufacturers set artificially high prices for the government programs while offering deep discounts to many other customers. Clinics, some physicians and other providers, in turn, have made extra profits.

Bayer Pharmaceuticals, a division of German drugmaker Bayer AG, confirmed yesterday that it has begun settlement talks with U.S. government officials. The company also has been negotiating with some states, including Virginia, according to a source familiar with the talks.

While the settlement talks could result in cash payments by pharmaceutical companies to the federal and state governments, they are focused mainly on getting drug companies to change their pricing practices within the Medicaid program, said a source familiar with the negotiations.

At issue is the formula used to calculate what the federal and state health insurance programs pay for drugs. The key component is known as AWP, which stands for average wholesale price. Some government officials say AWP

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actually stands for "ain't what's paid," because they assert it is neither average nor wholesale.

June Gibbs Brown, inspector general for the Department of Health and Human Services, has been saying for years that the \$ 125 billion pharmaceutical industry's pricing practices need to be overhauled. She said yesterday, through a spokeswoman, that "Medicare beneficiaries pay more for outpatient drugs in the form of increased coinsurance payments, and the taxpayers pay more because Medicare and Medicaid are paying too much for certain drugs."

Medicaid is a health insurance program for the poor--administered by the states with federal and state funding--that spent \$ 13.6 billion on prescription-drug benefits last year. States usually get some discount off AWP from drugmakers, as well as a rebate. And just 10 days ago, the company that sets most Medicaid drug prices agreed to use a formula based more on actual market prices.

Medicare, the federal health insurance program for the elderly, spent \$ 2.9 billion last year for drugs. Medicare doesn't cover most prescription drugs but does pay for drugs when patients are hospitalized and for selected other medications.

The Clinton administration has proposed cutting the reimbursement rate to actual cost. Congress approved only lowering the payment to 95 percent of AWP.

Federal and state officials succeeded in persuading First DataBank Inc., a private company that surveys drug wholesalers, to deliver more accurate pricing data on about 50 Medicaid-covered drugs starting May 1.

Spokesmen for the U.S. Justice Department and the HHS inspector general's office declined to comment on the status of the settlement talks with Bayer, which were reported yesterday by the Wall Street Journal.

In a separate matter, the House Commerce Committee yesterday released copies of letters it sent last week to seven drug companies, including Bristol-Myers Squibb Co. and SmithKline Beecham PLC, asking for pricing data on specific Medicare drugs.

In a letter to Glaxo Wellcome Inc., a North Carolina-based drug manufacturer, the committee chairman, Rep. Thomas J. Bliley Jr. (R-Va.), wrote that he had evidence "that some drug companies may be reporting artificially-inflated reimbursement rates for certain Medicare-covered drugs, and may be manipulating such prices in order to assist their sales and marketing efforts aimed at health care providers."

Bliley added: "I intend to find out whether the Medicare program and our Nation's senior citizens are being financially gouged for certain drugs. . . . I would find it hard to believe that, when AWP was adopted as the benchmark for Medicare reimbursements, Congress intended to allow drug manufacturers to charge Medicare whatever they wanted."

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